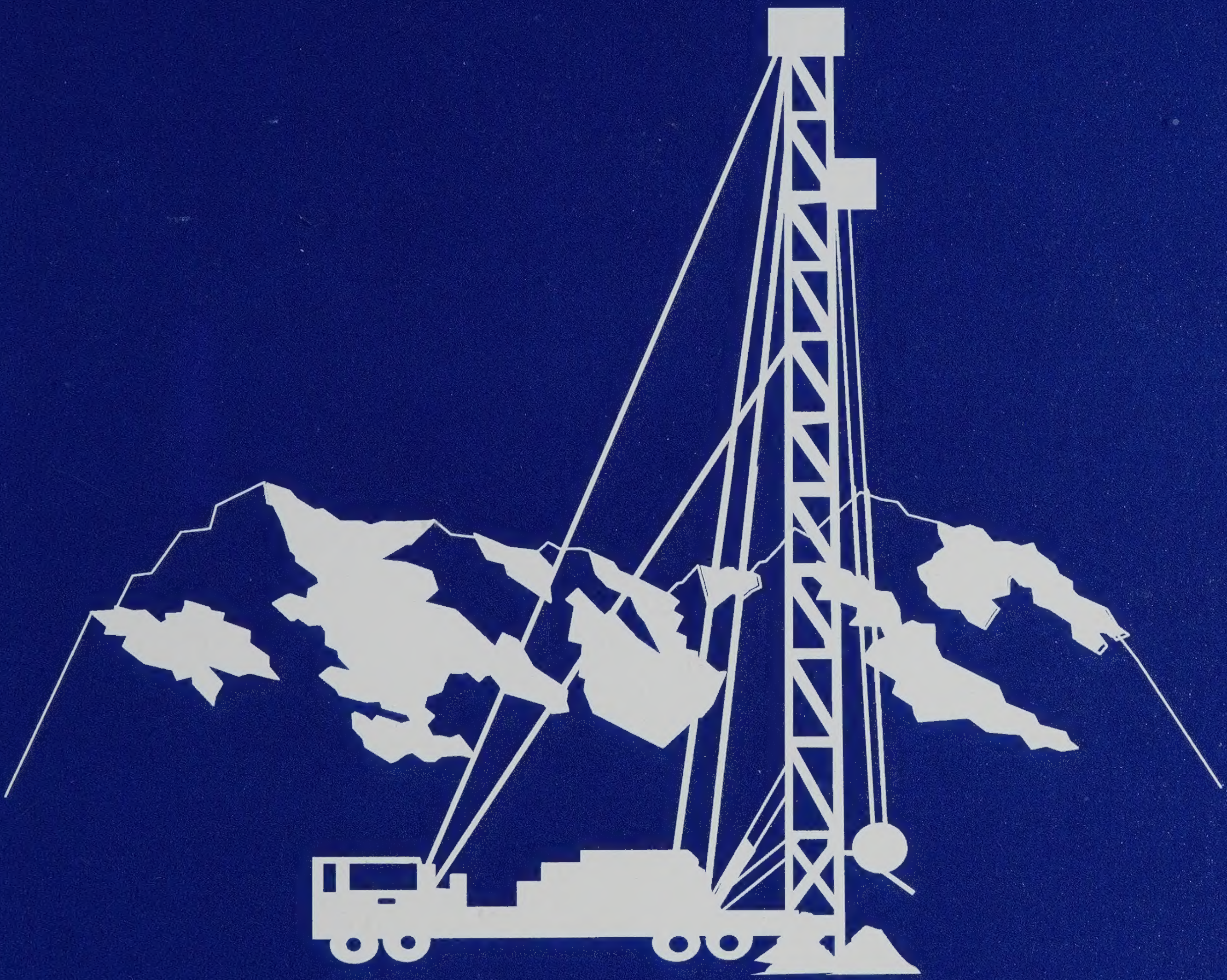

Chirripo Resources Inc.

Annual Report
2002

Chirripo Resources Inc. is an emerging junior oil and gas company that trades on the TSX Venture Exchange under the symbol "CHO". The Company's headquarters are in Calgary, Alberta.

Chirripo Resources Inc. was incorporated in March, 1997, as a junior capital pool company and completed its major transaction in January, 1999, by acquiring Chirripo Oil and Gas Ltd.

The Company has grown by using a balanced investment approach through strategic property acquisitions, which compliment the Company's operational expertise and low-risk exploitation projects that generate near term cash flow.

As an emerging full cycle oil and gas company, Chirripo is acquiring larger controlling interests in its focus areas as it strives to lower operating, finding and onstream costs. With a strong balance sheet and a large undeveloped land base, Chirripo is strategically positioned to participate in high reward exploration projects.

Table of Contents

Annual Meeting

Shareholders are invited to attend the Company's annual meeting, to be held at the offices of the Company at 1440 - 530, 8th Avenue S.W., Calgary, AB, on Thursday, May 15, 2003, at 3:00 pm. Shareholders unable to attend the meeting are requested to complete and return the Proxy Form to the Company's Transfer Agent.

Year 2002 was a milestone in Chirripo's history. The Company exited the year with higher daily production, total reserves and total revenue than any previous year. The Company's average production volume for the fourth quarter was 217 boe/d. Total proven plus 50% risked probable reserves were increased to 590,000 boe at December 31, 2002. Chirripo generated more than $1,500,000 gross revenue in 2002. This was due to the Company's June 2002 acquisition of properties and subsequent farmout that yielded a successful well in Gordondale. The acquisition added to our existing core areas as well as creating new areas of focus.

The Company is no longer merely a holder of gross overrides and small working interests, but is an operator of 10 wells, most of which are 100% owned by the Company.

Subsequent to year end, the Company concluded a property acquisition, effective January 1, 2003, in the Giroux area of Alberta. Included in the purchase was 1,880 net acres, 22 boe/d gas production, and one capped gas well. Also in the first quarter 2003, the Company re-entered an Amigo-Zama 100% working interest well but was unable to finish the testing due to the short winter season. In addition, the Company was able to successfully re-enter an oil well in the Peace River Arch area that flowed 91 bbls in 3 hours and will be equipped with a pumpjack after road bans have been lifted.

In 2003, the Company has budgeted $1.35 million to be spent on drilling at least three wells (two net wells), re-entering, testing and tie-in of an additional three wells and installing a compressor. With buoyant gas prices, the Company plans to fund its capital program with internally generated cash flow.

On behalf of the Board, I wish to thank our shareholders for their continued support and the staff of Chirripo Resources Inc. for making 2002 a very successful year.

Issa Abu-Zahra
President
April 9, 2003

[1] *Natural gas converted at 6 mcf per 1 barrel of oil.*

Reserves

Gross proven plus 50% risked probable reserves grew by 105% during 2002 to 590 thousand barrels of oil equivalent. Additions from acquisitions and exploitation total 338 thousand barrels of oil equivalent, split 56% to acquisitions and 44% to exploitation. All of the acquisition additions were within the Company's core areas in Northern Alberta.

	Remaining Reserves				
	Natural Gas	Crude Oil & Ngl's	Undiscounted	Discounted at 10%	Discounted at 15%
	(MMcf)	*(Mstb)*	*($000)*	*($000)*	*($000)*
Proven developed producing	1,536	87	8,317	5,803	5,118
Proven developed non-producing	952	30	3,910	2,442	2,023
Total proved	2,488	117	12,227	8,245	7,141
Probable (risked at 50%)	242	18	1,402	806	671
Total	2,730	135	13,629	9,051	7,812

As at January 1, 2003 determined by Paddock Lindstrom & Associates Ltd., independent consultants.
Remaining reserves are the Company's share of reserves before deduction for crown, freehold and other royalties.
Discounted data represents the present value of estimated future cash flow before income taxes including ARTC based on constant price and cost assumptions.

Reserves Reconciliation *(before royalties)*

	Proven			Proven and 50% Risked Probables		
	Natural Gas	Crude Oil & Ngl's	Total	Natural Gas	Crude Oil & Ngl's	Total
	(MMcf)	*(Mstb)*	*(Mboe)*	*(MMcf)*	*(Mstb)*	*(Mboe)*
January 1, 2002	1,143	71	261	1,247	80	288
Acquisitions	773	35	164	892	40	189
Exploitation	679	18	131	776	20	149
Revisions to prior estimates	113	9	28	35	11	17
Production	(220)	(16)	(53)	(220)	(16)	(53)
January 1, 2003	2,488	117	532	2,730	135	590

Gross reserves are based on constant price and cost assumptions since January 1, 2002.

Net Asset Value

($ thousands, except per share amounts)	***2002***	*2001*
Established reserves discounted at 15% pre-tax including ARTC[1]	**5,387**	2,746
Undeveloped land[2]	**2,025**	1,275
Working capital	**38**	39
Bank loans	**(1,120)**	(1,200)
Net asset value – basic	**6,330**	2,860
Proceeds from stock options	**109**	95
Net asset value – diluted	**6,439**	2,955
Per share amounts		
Basic	**0.96**	0.52
Fully diluted	**0.96**	0.52

[1] *Proven plus probable reserves risked at 50% before royalties based on escalated price and cost assumptions*
[2] *Undeveloped land is valued at $75 per acre.*

Finding and Development Costs

($ thousands, except where noted)	***2002***	*2001*
Land and seismic	**96**	472
Drilling and recompletions	**399**	524
Acquisitions	**323**	890
Equipment	**148**	81
Total finding and development costs	**966**	1,967
Reserve additions		
Proved *(Mboe)*	**295**	106
Proved plus probable risked at 50% *(Mboe)*	**338**	123
Reserve additions based on constant price and cost assumptions.		
Costs per boe		
Proved *($/Boe)*	**3.27**	18.56
Proved plus probable risked at 50% *($/Boe)*	**2.86**	15.99

Recycle Ratio

The recycle ratio provides a measure of a company's ability to sustain growth. It is calculated by taking the Company's operating netback on a boe basis and dividing it by the proved finding and development cost ($12.89 per boe / $3.27 per boe). In 2002 Chirripo achieved a recycle ratio of 3.9 which is well above the industry standard of 2.0

The following discussion is presented in conjunction with the financial statements and accompanying notes.

($ thousands except where noted)	***2002***	*2001*
Natural gas production *(mcf/d)*	**543**	343
Natural gas revenue	**849**	647
Natural gas price *($/mcf)*	**4.28**	5.16
Oil and NGLs production *(bbls/d)*	**43**	30
Oil and NGL revenue	**553**	413
Oil and NGLs price *($/bbl)*	**35.32**	38.07
Royalty production (boe/d)	**8**	12
Royalty price ($/boe)	**33.53**	54.69
Total production *(boe/d)*	**105**	76
Total production[1] *(boe/d)*	**145**	104
Average price *($/boe)*	**39.03**	46.80

[1] *Natural gas converted at 6 mcf per 1 barrel of oil.*

Total revenue from working interest properties increased 32% from $1,059,635 in 2001 to $1,401,810. Natural gas revenue from working interest properties increased 31% with lower natural gas prices offset by production gains in 2002. The production increases were due to a second quarter acquisition of producing properties at Gordondale, reactivations at Elmsworth and drilling success at Gordondale during the fourth quarter. Similarly, production increases due to the second quarter acquisition of producing properties at Rainbow, Gordondale and Seal offset lower oil and NGL prices in 2002 so that oil and NGL revenues from working interest properties increased 34%.

Income from royalties declined 57% from $230,854 in 2001 to $99,269 in 2002 resulting from a decline in both volumes and prices. The Company's reliance on this source of income continues to decline as the Company increases its base of operated properties.

Royalties

Total royalty expense, net of Alberta Royalty Tax Credits (ARTC) increased to $255,040 (18% of sales revenues) from $222, 187 (21% of sales revenues). Lower commodity prices in 2002 were the contributing factor to the lower royalty rates.

Operating Expenses

Operating Expenses increased to $484,529 in 2002 from $273,175 in 2001. Increased production volumes accounted for 63% of the year over year increase in operating expenses. The remaining increase in operating expenses was due to processing fees from two gas wells at Shekilie some of which related to 2001 production and workovers and additional maintenance completed on wells acquired in the summer of 2002.

General and Administrative Expenses

Though general and administrative expenses increased 20% from $288,182 in 2001 to $362,217 in 2002, on a per boe basis the rate dropped by 12%. This trend will continue into 2003 as the Company's daily production rate continues to increase. The year over year increase was due entirely to expenses related to staffing as the Company made the commitment to hire a full-time financial officer and an engineering consultant to help manage the Company's increased corporate and operational responsibilities.

Interest Expense

The Company's debt level decreased marginally from 2001 to 2002, but interest expense increased $33,668 to $80,455 in 2002. Most of the 2001 debt was associated with the Company purchasing $1,055,000 of producing properties in August 2001.

Depletion and Site Restoration

Depletion expense increased from $291,251 in 2001 to $382,491 in 2002. The increase was due entirely from production increases in 2002 as the Depletion rate declined to $7.08 per boe in 2002 from $7.53 per boe in 2001. The fourth quarter depletion rate in 2002 declined further to $5.65 per boe due to reserve additions from reactivated wells and drilling success at Gordondale. Site restoration increased to $21,466 in 2002 from $13,833 in 2001. The site restoration liability increased 36% due to the June 2002 acquisition of properties in Northern Alberta which incur higher average site restoration costs upon abandonment.

Income Taxes

The Company's income taxes are comprised entirely of future income taxes as the Company is not currently taxable and has tax pools available of $1,690,000. Tax pool ending balances for 2002 are made up of $1,193,000 of Canadian Oil and Gas Property Expenses, $121,000 of Canadian Development Expenses and Undepreciated Capital Costs of $376,000. Future income taxes were increased $145,600 due to flow through shares issued during 2002.

Financial Highlights

($ thousands, except where noted)	***2002***	*2001*
Cashflow from operations	**320**	480
Per share – basic *($)*	**0.05**	0.09
Per share – fully diluted *($)*	**0.05**	0.09
Net earnings (loss)	**(142)**	41
Per share – basic *($)* [1]	**(0.02)**	0.01

[1] *Earnings per share – fully diluted is not disclosed due to the anti-dilutive nature of the Company's share options, see Note 10 in the accompanying notes to the financial statements.*

Capital Expenditures

The Company reduced its capital spending program by 104% from $1,966,852 in 2001 to $965,954 in 2002 of which $50,200 represented capital costs incurred in 2002 but paid for in 2003. The Company refocused its efforts after poor drilling results in 2001 by changing its spending activity to acquire properties that offered low risk recompletion and reactivation projects. This strategy led to a marked decrease in the Company's finding and developing costs from $18.56 in 2001 to $3.27 in 2002 on a proven basis. Furthermore, less emphasis was placed on acquiring land as the Company spent $96,000 in 2002 versus $472,000 in 2001.

Liquidity and Capital Resources

The Company's 2002 capital program was funded by 16% debt, 33% internal cash flow and 51% equity. A total of $727,500 was raised during 2002 from the issue of 1.9 million shares at an average price of $0.38/share. Included in the total amount raised was the exercise of warrants that were issued in December 2001. The warrants were converted into common shares in December 2002 at $0.30/share for equity proceeds of $250,000. In 2001 a total of 1.0 million shares were issued for gross proceeds of $266,700 at an average price of $0.28/share.

Business Risks

The marketability and price of products owned or that may be acquired or discovered by the Company will be affected by numerous factors beyond the Company's control. The Company must compete in all aspects of its operations with a number of other corporations that have equal or greater technical or financial resources. The ability of the Company to market its natural gas may depend on its ability to acquire space in pipelines that deliver natural gas to commercial markets. The Company is also subject to market fluctuations in the prices of products, exchange rates, deliverable uncertainties related to the proximity of its reserves to pipelines and processing facilities and extensive government regulation.

The accompanying financial statements and all operational and financial information in this annual report are the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles. Management is satisfied that the financial information throughout the balance of this annual report is consistent with the information presented in the financial statements.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that the accounting system provides timely, accurate and reliable financial information.

Meyers, Norris, Penny LLP, the independent auditors appointed by the shareholders have examined the financial statements of the company for the year ended December 31, 2002. The Audit Committee has reviewed these statements with management and the auditors. The Board of Directors have approved the financial statements of the Company on the recommendation of the audit committee.

Issa Abu-Zahra
President and Chief Executive Officer

David Dakers
Secretary and Chief Financial Officer

April 9, 2003

Auditors' Report

To the Shareholders of Chirripo Resources Inc.

We have audited the balance sheets of Chirripo Resources Inc. as at December 31, 2002 and 2001 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company,s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP
Chartered Accountants

Calgary, Alberta
March 31, 2003

Balance Sheets
As at December 31

	2002	2001
Assets		
Current		
Cash	**5,826**	4,436
Accounts receivable	**267,081**	222,305
ARTC receivable	**15,425**	16,512
Prepaid expenses and deposits *(Note 3)*	**257,044**	16,619
	545,376	259,872
Employee loan *(Note4)*	**-**	38,592
Capital assets *(Note 5)*	**2,869,950**	2,286,487
	3,415,326	2,584,951
Liabilities		
Current		
Accounts payable and accruals	**507,872**	220,899
Bank loans *(Note 6)*	**1,120,000**	1,200,000
	1,627,872	1,420,899
Future income taxes *(Note 7)*	**464,000**	260,070
Future site restoration	**26,614**	47,226
	2,118,486	1,728,195
Shareholders' Equity		
Share capital *(Note 8)*	**1,044,740**	462,910
Retained earnings	**252,100**	393,846
	1,296,840	856,756
	3,415,326	2,584,951

Approved on behalf of the Board:

Issa Abu-Zahra - Director

M. A. Williams

Michael A. Williams - Director

The accompanying notes are an integral part of these financial statements.

Statements of Operations and Retained Earnings

For the years ended December 31

	2002	2001
Revenue		
Petroleum and natural gas sales	**1,401,810**	1,059,635
Royalty income	**99,269**	230,854
Royalty expense net of ARTC	**(255,040)**	(222,187)
	1,246,039	1,068,302
Expenses		
General and administrative	**362,217**	288,182
Operating	**484,529**	273,175
Interest	**80,455**	46,787
Depletion and amortization	**382,491**	291,251
Future site restoration	**21,466**	13,833
	1,331,158	913,228
Earnings (loss) from operations	**(85,119)**	155,074
Other income	**1,633**	19,627
Earnings (loss) before income taxes	**(83,486)**	174,701
Provision for future income taxes *(Note 7)*	**58,260**	134,000
Net earnings (loss)	**(141,746)**	40,701
Retained earnings, beginning of year	**393,846**	353,145
Retained earnings, end of year	**252,100**	393,846
Earnings (loss) per share – basic *(Note 10)*	**(0.022)**	0.007

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

For the years ended December 31

	2002	*2001*
Cash provided by (used for) the following activities		
Operating		
Net earnings (loss)	**(141,746)**	40,701
Add items not involving a current cash outlay		
Depletion and amortization	**382,491**	291,251
Future site restoration	**21,466**	13,833
Future income taxes	**58,260**	134,000
Cash flow from operations	**320,471**	479,785
Changes in non-cash working capital balances		
Accounts receivable	**(44,776)**	56,976
Prepaid expenses and deposits	**(240,425)**	(14,570)
Accounts payable and accruals	**236,773**	62,301
Income taxes payable	**1,087**	(55,738)
	273,130	528,754
Financing		
Bank loan (repayments) advances	**(80,000)**	1,180,000
Issuance of shares	**727,500**	266,700
Share issuance costs	**-**	(9,152)
	647,500	1,437,548
Investing		
Purchase of capital assets	**(1,062,643)**	(2,132,352)
Proceeds on disposal of capital assets	**146,889**	165,500
Other	**(3,486)**	5,531
	(919,240)	(1,961,321)
Increase in cash	**1,390**	4,981
Cash (overdraft), beginning of year	**4,436**	(545)
Cash, end of year	**5,826**	4,436

Supplemental cash flow information		
Interest paid	**80,455**	46,787
Income tax paid	**-**	55,738

The accompanying notes are an integral part of these financial statements.

For the years ended December 31, 2002 and 2001

1. Nature of Business

Chirripo Resources Inc. ("the Company") is incorporated under the laws of Alberta and its principal activity is the exploration for and development of oil and gas properties in Western Canada.

2. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada. In preparing these financial statements, management is required to make estimates and assumptions. In management's opinion, the financial statements have been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Capital assets

The Company follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs associated with the exploration for, and the development of, petroleum and natural gas reserves, whether productive or unproductive are capitalized in cost centres. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties and drilling and overhead expenses related to exploration and development activities. Proceeds from disposition of property sales are credited to the net book value of the property and equipment. Gains and losses are not recognized upon disposition of oil and gas properties other than equipment, unless the disposition would significantly alter the rate of depletion.

Costs capitalized are depleted and amortized using the unit-of-production method based on gross proved oil and gas reserves as determined by independent engineers. For purposes of the depletion calculation, proved oil and gas reserves are converted to a common unit of measure on the basis of their approximate relative energy content.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion, future or deferred income taxes and the site restoration provision from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves, based on current prices and costs, and after deducting estimated future site restoration costs, general and administrative expenses, financing costs and income taxes. Any costs carried on the balance sheet in excess of the ceiling test limit are charged to income as additional depletion.

Capital assets other than petroleum and natural gas properties are stated at cost less amortization calculated using the straight-line basis at the following annual rates:

Furniture and fixtures	20%
Computer equipment	30%

Joint venture activities

Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others, and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Bank loans

Commencing in 2002, the Company retroactively adopted the pronouncement of the Canadian Institute of Chartered Accountants concerning the "Balance Sheet Presentation of Callable Debt Obligations Expected to be Refinanced". Since both of the Company's credit facilities are subject to an annual renewal the new accounting standard requires that the loans be presented as a current liability. *(see Note 6)*

2. Accounting Policies *(continued)*

Future site restoration costs

The Company provides for site restoration and abandonment costs over the life of the proved reserves on a unit-of-production basis. Costs are estimated each year by management based on current regulations, costs, and technology and industry standards. The annual charge to income is recorded as a provision for future site restoration costs and the accumulated liability is classified as long-term liability. Actual costs, as incurred, are charged to the accumulated liability.

Income taxes

The Company utilizes the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases using tax rates that are expected to be in effect when the related income and expense items are expected to be realized. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

Flow-through shares

Income tax legislation permits the flow through to shareholders of income tax deductions relating to certain qualified resource expenditures. The income tax benefits renounced are reflected as a future income tax liability and deducted from the proceeds of share capital.

Per share amounts

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated based on the treasury stock method which assumes that any proceeds obtained on the exercise of options and warrants would be used to purchase common shares at the average price during the period.

Stock-based compensation

Effective January 1, 2002 the Company adopted CICA Handbook 3870 "Stock-based Compensation and Other Stock-based Payments", which establishes standards for the recognition, measurement and disclosure of stock-based compensation made in exchange for goods and services. The new standard sets out a fair-value based method of accounting that is required for certain, but not all, stock-based transactions.

The new standard permits the Company to continue its existing policy whereby the compensation cost is recorded over the time of the related service on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as shareholders' equity. However, Handbook 3870 requires additional disclosure for options granted to employees, including disclosure of pro forma earnings and pro forma earnings per share as if the fair-value based accounting method had been used to account for employee stock options *(see Note 9*).

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The amounts recorded for depletion of capital assets and the provisions for future abandonment and site restoration costs are based on estimates. The ceiling test is based on such factors as estimated proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material if actual results differ from these estimates.

3. Prepaid Expenses and Deposits

Included in the 2002 balance is $227,003 paid to the Alberta Energy and Utilities Board (EUB) for security deposits related to the Company's Licensee Liability Rating (LLR) associated with well license transfers for properties purchased in 2002. As the Company reactivates suspended wells and abandons inactive wells the EUB will reassess the Company's LLR and refund the security deposits.

4. Employee Loan

The loan is unsecured and bears interest at 7%. The loan was fully repaid in 2002.

5. Capital Assets

	2002		*2001*	
	Cost	*Net Book Value*	*Cost*	*Net Book Value*
Petroleum and natural gas properties	**3,673,991**	**2,860,163**	2,710,076	2,272,347
Furniture and fixtures	**13,752**	**6,136**	12,489	7,624
Computer equipment	**12,146**	**3,651**	11,368	6,516
	3,699,889	**2,869,950**	2,733,933	2,286,487

The 2002 ceiling test was performed using wellhead prices of $40.96/bbl (2001 - $30.26/bbl) for oil and $5.39/mcf (2001 – $3.39/mcf) for natural gas. Based on these parameters, there is no impairment in the carrying value. The Statement of Cash Flows does not include $50,200 of 2002 capital asset purchases that were not paid until 2003.

6. Bank Loans

	2002	*2001*
Revolving non-reducing operating demand loan (a)	**950,000**	-
Non-revolving acquisition demand loan (b)	**170,000**	-
Revolving reducing demand loan (c)	-	1,050,000
Development loan (d)	-	150,000
	1,120,000	1,200,000

In May 2002 the Company restructured their 2001 credit facilities consisting of: (c) a revolving reducing demand loan, (d) a development loan and (e) a non-revolving acquisition and development loan with two credit facilities consisting of: (a) a revolving non-reducing operating demand loan, (b) a non-revolving acquisition demand loan.

(a) Under the revolving non-reducing operating demand loan, the amount due to the bank was $950,000 at December 31, 2002. The amount available under the credit facility was $1,350,000 which revolves by increments of $25,000. Amounts drawn down under the facility bear interest at the bank's prime rate plus 1% and there is a standby fee of 1/8 of one percent on undrawn amounts.

(b) At December 31, 2002, $170,000 had been borrowed under the non-revolving acquisition demand loan under which amounts up to $1,000,000 may be borrowed. Amounts drawn down under the facility bear interest at the bank's prime rate plus 1 % and t here is a standby fee of 1/8 of one percent on undrawn amounts.

(c) The amount available under the revolving reducing demand loan was $1,350,000 at December 31, 2001 which reduced by $50,000 per month. Amounts drawn down under the facility bear interest at the bank's prime rate plus % and there is a standby fee of 1/8 of one percent on undrawn amounts.

6. Bank Loans (continued)

(d) Repayment of the development loan was $10,000 per month commencing February 28, 2002 plus interest at the bank's prime rate plus 1 %.
(e) The amount available under the non-revolving acquisition and development loan was $1,000,000 at December 31, 2001. Amounts drawn down under the facility bear interest at the bank's prime rate plus 1% and there is a standby fee of 1/8 of one percent on undrawn amounts.

The loans are secured by a demand promissory note, a general assignment of book debts and a floating debenture in the amount of $5,000,000.

7. Income Taxes

At December 31, 2002, the Company has approximately $1,690,000 (2001 - $1,480,000) of tax pools available. The Company also has $6,650 (2001 - $21,685) in unclaimed share issuance costs. The benefit of these tax pools has been recognized in these financial statements.

The income tax expense differs from the amount that would be expected by applying the current tax rates for the following reasons:

	2002	*2001*
Earnings (loss) before taxes	**(83,486)**	174,701
Expected tax expense at 41.62% (2001 – 41.62%)	**(34,747)**	72,710
Tax effect of expenses not deductible for tax purposes	**310,490**	337,580
Share issuance costs	**(6,258)**	(7,673)
Resource allowance deducted for income tax purposes	**(205,456)**	(255,978)
Alberta royalty tax credit	**(5,769)**	(12,639)
Provision for future income taxes	**58,260**	134,000

The components of the net future income taxes liability are as follows:

	2002	*2001*
Future income tax liabilities		
Petroleum and natural gas properties	**477,845**	288,754
Future income tax assets		
Future site restoration	**(11,077)**	(19,655)
Share issue costs	**(2,768)**	(9,029)
Net future income tax liability	**464,000**	260,070

8. Share Capital

Authorized
An unlimited number of common voting shares
An unlimited number of preferred shares

The preferred shares may be issued from time to time in one or more series, each series consisting of a number of preferred shares as determined by the Board of Directors of the Company who may also fix the designations, rights, privileges, restrictions and conditions attaching to each series of preferred shares. There are no preferred shares issued.

8. Share Capital (continued)

Issued

Common shares

	Number of shares	*Amount*
Balance at December 31, 2000	5,355,000	309,362
Issued on exercise of options	130,000	16,700
Flow-through shares (net of tax effect of renouncements) (a)	833,334	146,000
Share issuance costs	-	(9,152)
Balance at December 31, 2001	6,318,334	462,910
Issued on exercise of options	150,000	27,500
Issued on exercise of warrants (b)	833,334	250,000
Common shares (c)	250,000	100,000
Flow-through shares (net of tax effect of renouncements) (d)	700,000	204,330
Balance at December 31, 2002	8,251,668	1,044,740

(a) In December 2001, a private placement of 833,334 flow-through shares was completed at a price of $0.30 per share for proceeds of $250,000. The related renunciation was made effective December 31, 2001. Approximately $136,717 of qualifying expenditures had been incurred at that time, the remainder was incurred prior to February 28, 2002.

(b) In connection with the December 2001 flow-through issue the Company issued 833,334 warrants to purchase common shares. The warrants were exercised at a price of $0.30 per share in December 2002 for proceeds of $250,000.

(c) In August 2002 the Company completed a private placement of 250,000 common shares at a price of $0.40 per share for proceeds of $100,000.

(d) Two private placements (August and December 2002) totaling 700,000 flow-through shares were completed at a price of $0.50 per share for proceeds of $350,000. The related renunciation for both transactions was made effective December 31, 2002. Approximately $150,200 of qualifying expenditures had been incurred at that time, with the remainder to be incurred prior to December 31, 2003.

Stock options

The Company has established a Stock Option Plan whereby options may be granted to the Company's directors, officers, key employees and consultants for up to 10% of the issued and outstanding common shares of the Company. The stock options vest and are exercisable immediately following the grant of the options.

Stock option transactions were as follows:

	Options	Weighted Average Exercise Price
Balance at December 31, 2000	425,000	0.12
Options granted	235,000	0.25
Options exercised	(130,000)	0.13
Balance at December 31, 2001	530,000	0.18
Options granted	137,500	0.30
Options exercised	(150,000)	0.18
Balance at December 31, 2002	517,500	0.21

For the years ended December 31, 2002 and 2001

8. Share Capital (continued)

At December 31, 2002, the following stock options were outstanding:

Number of Stock Options	*Date of Expiry*	*Exercise Price*
195,000	January 14, 2005	$0.11
185,000	July 3, 2006	$0.25
137,500	September 3, 2007	$0.30
517,500		

Escrow shares

As at December 31, 2002, the Company had no common shares held in escrow.

9. Stock Based Compensation

The Company uses the Black-Scholes option pricing model to estimate the fair value at the date of grant for options granted. 137,500 options were granted during 2002 with a weighted average fair value of $39,400 using the following weighted average assumptions:

	2002
Risk free interest rate (%)	4.75%
Expected volatility (%)	80.00%
Expected life (years)	5
Expected dividends	-
Loss attributable to common shareholders – as reported	(141,746)
Stock-based compensation expense	(39,400)
Loss attributable to common shareholders – pro forma	(181,146)
Loss per share – basic as reported	(0.022)
Loss per share – basic pro forma	(0.028)

10. Per Share Amounts

The weighted average number of common shares outstanding during fiscal 2002 was 6,560,891 (2001 – 5,460,461) shares. The number of shares added to the weighted average number of common shares outstanding for the dilutive effect of options utilizing the treasury stock method was 154,333 (2001 – 136,530). The effect of options exercised under this method for the 2002 diluted loss per share was anti-dilutive and therefore not disclosed on the Statement of Operations and Retained Earnings.

11. Commitments

The Company has entered into an office rental lease expiring January 2007. The Company has the following minimum annual lease payments:

2003	62,508
2004	68,190
2005	68,190
2006	68,190
2007	5,682

12. Related Party Transactions

During the year, the Company paid $58,679 (2001 - $61,127) to two directors of the Company for consulting services. Of this amount, $23,250 (2001 - $27,825) was charged to general and administrative expenses and $35,429 (2001 - $33,302) was capitalized as overhead relating to exploration and development activities. These transactions were in the normal course of business and have been measured at the exchange amount which is the amount established and agreed upon by the related parties.

13. Segmented Information

The Company operates primarily in the oil and gas industry in Western Canada and as such, is defined as having only one industry and geographic segment.

14. Financial Instruments

Fair Value

At December 31, 2002 and 2001, the estimated fair market value of accounts receivable and accounts payable is equal to the book value due to the short-term nature of these accounts. The fair market value of the bank loans approximates its book value as the loans carry a floating rate of interest.

Credit Risk

Virtually all of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

15. Comparative Figures

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

Directors

Michael A. Williams
Chairman of the Board
Calgary, AB

Thomas R. Wilcock
Calgary, AB

Larry Braun
Calgary, AB

Issa Abu-Zahra
Calgary, AB

Officers

Issa Abu-Zahra
President and Chief Executive Officer
Calgary, AB

Thomas R. Wilcock
Vice-President of Exploration
Calgary, AB

David A. Dakers
Secretary and Chief Financial Officer
Calgary, AB

Auditors
Meyers Norris Penny, LLP
Calgary, AB

Engineers
Paddock Lindstrom & Associates Ltd.
Calgary, AB

Legal Counsel
Gowling Lafleur Henderson LLP
Calgary, AB

Transfer Agent
Computershare Trust Company of Canada
Calgary, AB

Bankers
National Bank of Canada
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Stock Exchange
TSX Venture Exchange
Trading Symbol: CHO

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Abbreviations

bbls	Barrels
mbbls	Thousand barrels
bbls/d	Barrels per day
mcf	Thousand cubic feet
mmcf	Million cubic feet
bcf	Billion cubic feet
mcf/d	Thousand cubic feet per day
NGLs	Natural gas liquids
boe	Barrels of oil equivalent
mboe	Thousand barrels of oil equivalent
mstb	Thousand stock tank barrels

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